

Message Text

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ACTION STR-04

INFO OCT-01 EUR-12 EA-07 ISO-00 STRE-00 CIAE-00
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TRSE-00 FRB-03 OMB-01 AGR-05 ITC-01 SS-15 NSC-05
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FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC NIACT IMMEDIATE 3480

AMEMBASSY LONDON

INFO AMEMBASSY SEOUL

USDEL MTN GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 TAIPEI 2655

PASS DEPARTMENT OF COMMERCE, LABOR AND TREASURY

LONDON PASS AMBASSADORS STRAUSS AND WOLFF

FOR STR ELECTRONICALLY

E.O. 11652: GDS

TAGS: ETRD, TW

SUBJECT: FOOTWEAR NEGOTIATIONS

1. SUMMARY: U.S. NEGOTIATING TEAM COMPLETED TWO DAYS OF DISCUSSIONS WITH ROC TEAM LED BY Y.T. WONG, THE DIRECTOR OF THE BOARD OF FOREIGN TRADE. MOST ELEMENTS OF PROPOSED AGREEMENT HAVE BEEN EXPLORED AND DRAFT AGREEMENT WITH U.S. OPENING POSITIONS GIVEN TO ROC. DISCUSSIONS HAVE BEEN CORDIAL AND CONSTRUCTIVE WITH WONG REPEATEDLY EXPRESSING WILLINGNESS TO WORK TOWARD AGREEMENT ACCEPTABLE TO BOTH SIDES. FIRST TWO DAYS HAVE REDUCED MAJOR DIFFERENCES ALTHOUGH ROC DEEPLY CONCERNED THAT ROC TREATED EQUITABLY VIS A VIS KOREA. WONG IS ADAMANT IN HIS REFUSAL OF PRICE BREAKS AND "COMPLICATED" CONFIDENTIAL

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CATEGORY SYSTEM WHILE OTHER ISSUES APPEAR SOLUBLE AS LONG AS ROC TREATED AS WELL AS KOREA. THE PRICE BREAK/CATEGORY ISSUE SEEMS MANAGEABLE AND TEAM IS REQUESTING APPROVAL ASAP OF APPROACH TO TAIWAN WHICH WILL INVOLVE DEPARTURE FROM NEGOTIATING INSTRUCTIONS. U.S. INDUSTRY DELEGATION BELIEVES APPROACH IS ACCEPTABLE IF PROPERLY NEGOTIATED. END SUMMARY.

2. THE TONE OF MEETING BEST REFLECTED FOLLOWING EXTREMELY POSITIVE STATEMENT WONG PREPARED FOR PRESS. "NEGOTIATIONS ARE BEING CARRIED ON IN A MOST FRIENDLY ATMOSPHERE. WE ARE EXCHANGING VIEWS AND GETTING A BETTER UNDERSTANDING OF THE RESPECTIVE POSITIONS. ALTHOUGH THE FINAL STAGE OF NEGOTIATIONS HAS NOT BEEN REACHED, THE OUTLOOK IS GOOD. IN VIEW OF THE GOOD RELATIONS BETWEEN THE TWO COUNTRIES -- WE BELIEVE THERE IS NO OBSTACLE THAT CAN NOT BE OVERCOME."

3. FINAL OBSTACLE TO PRELIMINARY AGREEMENT WITH GROC, PENDING ACCEPTANCE OF THE PACKAGE BY KOREANS WHEN WE GO THERE MONDAY, CONCERNS PRODUCT CATEGORIES. GROC FINDS PRICE-BREAK CATEGORIES TOTALLY UNACCEPTABLE, BUT WILL ACCEPT CATEGORIES BASED ON CONSTITUENT MATERIALS: E.G., LEATHER, VINYL, ETC. US DELEGATION VIEWS THIS APPROACH AS BEING AT LEAST AS EFFECTIVE AS PRICE-BREAK, IF NOT MORE SO, IN ENSURING THAT PRESENT PATTERN OF TRADE IS GENERALLY MAINTAINED. ACCORDINGLY REQUEST IMMEDIATE CONSIDERATION OF INSTRUCTION CHANGE TO PERMIT FOLLOWING APPROACH:

4. DELEGATION WILL PROPOSE THREE CATEGORIES, CONSISTING OF LEATHER, PLASTICS, AND "OTHER MATERIALS." VINYL AND OTHER PLASTIC COULD BE SUBCATEGORIES OF PLASTIC CATEGORIES. OTHER PLASTIC CATEGORY IS INTENDED TO COVER POLYURETHANE TO PREVENT (A) UPGRADING FROM CHEAPEST VINYL TO MORE EXPENSIVE POLYURETHANE THAT COULD RESULT FROM SINGLE QUOTE PLASTIC UNQUOTE CATEGORY, AND (B) DISPROPORTIONATE SHIFTS THAT WOULD AFFECT MODERATE PRICED WOMEN'S SHOE MANUFACTURERS (ROUGHLY SEVENTY PERCENT OF U.S.-MADE WOMEN'S SHOES). LOCAL PRESS AND CONFIDENTIAL

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U.S. INDUSTRY ADVISORS REPORT THAT CHINESE MANUFACTURERS PLANNING TO UPGRADE BY MOVING FROM VINYL TO POLYURETHANE.

5. U.S. TEAM BELIEVES THIS TYPE OF CATEGORY SYSTEM WOULD BE EFFECTIVE IN LIMITING GROC FROM UPGRADING INTO LEATHER FOOTWEAR, AND FROM CUTTING INTO AREA WHERE U.S. INDUSTRY SALES ARE CONCENTRATED. AT SAME TIME, GROC INSISTENCE AGAINST PRICE BREAKS CAN BE ACCOMMODATED. APPROACH SEEMS GENERALLY ACCEPTABLE TO INDUSTRY ADVISORS.

6. CEILINGS IN THE THREE CATEGORIES BASED ON 120 MILLION PAIR TOTAL WOULD BE LEATHER 9.6, PLASTICS 102.9, AND OTHER MATERIAL 7.2. FIGURES IN POSSIBLE SUBCATEGORIES WOULD BE VINYL 84.2 AND OTHER PLASTICS 18.7, WITH SHIFTS BETWEEN SUBCATEGORIES POSSIBLE TO ALLOW LATITUDE FOR CHANGES IN MARKET CONDITIONS.

7. IF GROC WILL NOT ACCEPT SEPARATE QUOTE OTHER PLASTIC UNQUOTE SUBCATEGORY, WE WOULD LIKE TO FALL BACK TO THE FOLLOWING APPROACH FOR HANDLING THE POLYURETHANE PROBLEM. PARAGRAPHS IN

AGREEMENT WILL STATE, AS PER DRAFT, THAT GROC WILL NOT CHANGE EXPORT PRODUCT MIX SO AS TO DISRUPT NORMAL PATTERN OF TRADE, AND WILL PROVIDE FOR CONSULTATIONS IF THEY DO SO. AGREEMENT WILL FURTHER PROVIDE THAT IF BOTH PARTIES AGREE THAT NORMAL TRADE PATTERN IS IN FACT BEING DISRUPTED, U.S. MAY FURTHER CONTROL GROC IMPORTS, INCLUDING DURING PERIOD OF CONSULTATIONS. AGREED MINUTES OR SIDE LETTER WOULD THEN SET FORTH ADVANCE AGREEMENT OF GROC THAT DISRUPTIVE SHIFTS, AS DETERMINED BY U.S., FROM CHEAPEST VINYL TO POLYURETHANE WOULD CONSTITUTE DISRUPTION OF NORMAL PATTERN OF TRADE, AND WOULD PERMIT U.S. TO FURTHER CONTROL GROC EXPORTS BY ADDING NEW CATEGORIES OR BY OTHER APPROPRIATE MEANS. WE MAY ADD THAT MODERATE INCREASES IN POLYURETHANE EXPORTS, REFLECTING NORMAL GROWTH IN DEMAND, WOULD NOT BE CONSIDERED DISRUPTIVE.

8. ABOVE REPRESENTS OUR BEST EFFORTS TO SOLVE PROBLEM ON SHORT NOTICE SO AS TO HAVE A TENTATIVE AGREEMENT IN HAND WHEN
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WE MEET AGAIN WITH KOREANS ON MAY 9. WOULD APPRECIATE VERY MUCH YOUR URGENT CONSIDERATION AND APPROVAL OF NECESSARY INSTRUCTION CHANGE.

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TRSE-00 FRB-03 OMB-01 AGR-05 ITC-01 SS-15 NSC-05
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C O N F I D E N T I A L SECTION 2 OF 2 TAIPEI 2655

9. ONLY OTHER POINT REQUIRING DEPARTURE FROM INSTRUCTIONS AT THIS TIME IS SPACING PROVISION. WONG INSISTENT THAT THE LIMIT OF 60 PERCENT OF CEILING IN ANY HALF OF RESTRAINT YEAR IS UNNECESSARY AND WOULD DISRUPT THEIR SALES, WHICH HAVE A NATURAL SEASONAL CHARACTER. U.S. TEAM SAID IT WOULD EXPLORE POSSIBILITY OF A MORE GENERAL PROVISION IN THE AGREEMENT. ACCORDINGLY, REQUEST STR CABLE APPROVAL ASAP TO USE OF "BEST EFFORTS" LANGUAGE OF PARA. 11 OF THE US-ROC TEXTILE AGREEMENT TO MAINTAIN NORMAL PATTERN OF TRADE TAKING INTO CONSIDERATION SEASONAL FACTORS.

10. WITH RESPECT TO OTHER ASPECTS OF DISCUSSIONS, SIGNIFICANT FEATURE IS THAT WONG HAS NOT EXPRESSED CONCERN OVER RESTRAINT LEVEL ITSELF. HE HAS STATED THAT HE ONLY REQUIRES THAT THE SAME FORMULA BE APPLIED TO THE ROLLBACK AS BETWEEN THE ROC AND THE ROK AND HAS ACCEPTED THAT THE ROLLBACK BE FROM THE RESPECTIVE 1976 BASE.

1. ON GROWTH WONG HAS LIKEWISE INSISTED ON EQUAL TREATMENT WITH KOREA, I.E., REGARDING OVERALL GROWTH WHILE ACCEPTING CONFIDENTIAL

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THAT PATTERN OF GROWTH OVER DURATION OF AGREEMENT MIGHT DIFFER SOMEWHAT.

12. WONG AGREED TO PROVIDE FIRM ASSURANCES THAT ROC PROCEDURES WILL NOT SHIFT INTO RUBBER FOOTWEAR AS A RESULT OF THE AGREEMENT AND IS ALSO PREPARED TO OFFER ASSURANCE IN A SIDE LETTER, SHIFTS THAT THERE WILL NOT BE A SHIFT TO SHIPMENT OF UPPERS TO CIRCUMVENT THE AGREEMENT.

13. WONG STRONGLY AND REPEATEDLY URGED THAT U.S. CONSIDER SERIOUSLY EXCLUSION OF SHOES VALUED UNDER \$1.20 F.O.B. BECAUSE THEY ARE NOT BEING PRODUCED BY U.S. INDUSTRY NOR COULD THEY BE. THIS WAS DEFLECTED BY LANDE ON A NUMBER OF GROUNDS, BUT DRAWING MAINLY ON THE NEED TO MAKE COVERAGE IN THE AGREEMENT COINCIDE WITH THE PRODUCTS SUBJECT TO ITC INJURY FINDINGS AND ON THE NEED TO GIVE U.S. MANUFACTURERS A "CHANCE TO COMPETE" IN THE LOW END. THE ROC WAS TOLD, HOWEVER, THAT WE WOULD BEGIN IMPORT MONITORING OF SHOES VALUED UNDER \$1.20 PAIR AND, IF THE VERY INEXPENSIVE FOOTWEAR LATER BECAME SCARCE IN THE MARKET, BECAUSE U.S. INDUSTRY COULD NOT MEET DEMAND OPPORTUNITIES, THERE WOULD BE A SOUND BASIS FOR CONSIDERATION OF A REDUCTION IN RELIEF COVERAGE AS PROVIDED IN THE TRADE ACT.

14. THE OTHER MAJOR ROC CONCERN INVOLVED EQUITY, AND WONG CONTINUALLY RETURNED TO THE POINT THAT THE ROC WILL NOT STAND FOR NON-RESTRICTED COUNTRIES MAKING SIGNIFICANT INROADS IN THE U.S. MARKET AT THE EXPENSE OF ROC PRODUCERS. LANDE EXTENDED

APPROPRIATE ASSURANCES TO WONG THAT THE U.S. WOULD NOT ACCEPT SURGES FROM OTHER SUPPLIERS BUT EXPLAINED PROBLEMS IN FIXING ANY MATHEMATICAL FORMULA THAT COULD BE APPLIED UNIFORMLY TO ALL COUNTRIES.

15. SATURDAY, MAY 7, WILL BE SPENT IN A TECHNICAL REVIEW AND ADJUSTMENT OF THE DRAFT AGREEMENT. TEAM WILL REOPEN TALKS IN SEOUL ON MONDAY. IT WAS AGREED WITH GROG THAT TALKS IN TAIPEI WILL BE RESUMED ON NEXT WEDNESDAY, MAY 11, AND IN MEANTIME A CONFIDENTIAL

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COMMON POSITION WOULD BE TAKEN VISA A VIS THE PRESS THAT THE TALKS MOVED AHEAD SIGNIFICANTLY AND THAT PROSPECTS FOR SUCCESSFUL CONCLUSION ARE BRIGHT.

16. WONG, WHO HAD SEEN ROC PREMIER CHIANG, CHING-KUO DURING DAY, STATED THAT THE PREMIER EXPRESSED HIS PERSONAL CONCERN OVER THE ISSUE AND WANTS TO ASSIST PRESIDENT CARTER IN FACING A DIFFICULT SITUATION, I.G., DOMESTIC PRESSURES IN THE U.S.

17. DISCUSSION BEGAN ON EXPORT VISA SYSTEM AND START UP PERIOD FOR ROC VISA CONTROL SYSTEM. WONG WILL PROVIDE TEAM WITH SIGNATURES OF OFFICIALS AUTHORIZED TO SIGN EXPORT VISAS SO U.S. CUSTOMS CAN GET CONTROL SYSTEM IN PLACE MORE RAPIDLY. U.S. IMPORT CLASSIFICATIONS APPEAR ACCEPTABLE AS BASIS OF ROC CONTROL PROGRAM. DETAILS ARE TO BE EXPLORED AT MAY 7 MEETING.

18. ACTION REQUESTED: IF POSSIBLE BY FRIDAY 8 P.M.
WASHINGTON TIME, MODIFICATION OF NEGOTIATING INSTRUCTIONS:
A) SUBCEILING - DELEGATION COULD NEGOTIATE PRICE BREAKS OR MATERIAL LIMITATIONS DESCRIBED ABOVE.
B) SUBCEILINGS (D) - AUTHORITY TO SEEK ASSURANCE THAT COUNTRIES WILL NOT SHIFT INTO SHOE UPPERS TO CIRCUMVENT LIMITATIONS IN THIS AGREEMENT.
C) SPACING - PRESENT PROVISION OR PROVISION IN ARTICLE XI OF THE US-ROC TEXTILES AGREEMENT.
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Message Attributes

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